

Message Text

CONFIDENTIAL

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ACTION ARA-14

INFO OCT-01 EUR-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-07
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 FRB-03 XMB-02
OPIC-03 LAB-04 SIL-01 AGRE-00 /155 W
-----109647 160617Z /20

R 151930Z MAY 78
FM USINT HAVANA
TO SECSTATE WASHDC 1877
INFO AMEMBASSY BERLIN
AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMEMBASSY MOSCOW
AMEMBASSY PRAGUE
AMEMBASSY WARSAW

C O N F I D E N T I A L SECTION 1 OF 2 HAVANA 1256

NOFORN

E.O. 11652: GDS
TAGS: ETRD, ENRG, CU, UR
SUBJECT: SOVIET PETROLEUM PRICE RISES FOR CUBA, WHILE PURCHASES
OF CUBAN SUGAR INCREASE

REF: (A) HAVANA 0656, (B) HAVANA 0678, (C) HAVANA 0905

1. SUMMARY: CONTRADICTING THEIR EARLIER STATEMENTS TO USINT
(REFEL A), SOVIET TRADE REPRESENTATIVES IN CUBA ASSERT THAT
USSR HAS RAISED PETROLEUM PRICES TO CUBA BY SOME TWENTY TO
TWENTY-FIVE PERCENT IN 1978. BUT SOVIETS ALSO INDICATE THAT
THEY WILL PROBABLY PURCHASE 860 THOUSAND TONS OF SUGAR ABOVE
AMOUNT SPECIFIED IN LONG-TERM USSR-CUBAN PROTOCOL - WITH
500 THOUSAND TONS BEING PURCHASED FOR HARD CURRENCY CASH.

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2. USINT OFFICER, MAY 12, REVIEWED 1978 SOVIET-CUBAN
TRADE PROTOCOL (REF C) WITH SOVIET ACTING TRADE REPRESENT-
ATIVE BOROVLEV AND HIS ASSOCIATE SADYK KASIMOV. BOROVLEV
SAID THAT, DESPITE HIS EARLIER IMPRESSION (REFTEL A) THAT
PETROLEUM PRICE WAS BEING FROZEN FOR COMECON, FINALLY
NEGOTIATED VERSION OF 1978 SOVIET-CUBAN TRADE AGREEMENT
REVEALED THAT MOSCOW HAD RAISED PRICE OF PETROLEUM FOR CUBA

BY SOME 20 TO 25 PERCENT. HE INDICATED THAT HE IS NOT AWARE OF PETROLEUM SITUATION FOR OTHER COMECON COUNTRIES. THE PRICE OF MOST OTHER SOVIET TRADED GOODS ALSO ROSE SOME 20 TO 25 PERCENT, SOVIETS SAID. (COMMENT: SOVIETS CLAIMED THAT THEY HAD EARLIER BEEN MISINFORMED AND THAT FIVE-YEAR SLIDING AVERAGE PRICING FORMULA FOR COMECON PETROLEUM HAD, INDEED, APPARENTLY NOT BEEN ABOLISHED IN 1978. THE PROBABLE PETROLEUM PRICE FOR CUBA IN 1978 WHICH THEY CITED, IN REPLY TO A QUESTION MAY 12, HOWEVER - 50 TO 51 RUBLES PER TON - REPRESENTS ONLY AN APPROXIMATE 11 PERCENT INCREASE OVER THE 45 RUBLE PER TON PRICE WHICH THEY CITED IN MARCH - REFTEL A. HOW MUCH THESE DISCREPANCIES ARE DUE TO CHANGE OF CIRCUMSTANCES, GENUINE MISCALCULATION, OR CONSCIOUS DISINFORMATION IS UNCLEAR.)

3. SOVIETS SAID THAT, UNDER BILATERAL 1978 CUBAN-SOVIET TRADE PROTOCOL, USSR WILL PURCHASE 2.7 MILLION TONS OF SUGAR AGREED TO UNDER 1976-80 FIVE YEAR SOVIET-CUBAN TRADE AGREEMENT, PLUS AN ADDITIONAL 360 THOUSAND TONS OF SUGAR IN EXCHANGE FOR ADDITIONAL DELIVERY OF SOVIET GOODS WORTH 140 MILLION RUBLES. THE SOVIETS INDICATED THAT, DUE TO THE PRICE INCREASE ON SOVIET PETROLEUM AND OTHER SOVIET ARTICLES, CUBA'S INDEXED SUGAR PRICE FOR 1978 UNDER THE 1976-80 SOVIET-CUBAN AGREEMENT WOULD RISE FROM 506 RUBLES PER TON TO ABOUT 625 RUBLES PER TON. THE 140 MILLION RUBLES WORTH OF ADDITIONAL GOODS WILL INCLUDE, CONFIDENTIAL

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INTER ALIA, TEXTILES AND FABRICS, CLOTHES, FOOTWEAR, TRACTORS, TRUCKS, AUTOMOBILES, CRANES, FERTILIZER, SUPER-PHOSPHATES, TIN PLATE, ZINC, FLOUR (FOR PLANNED EXPANSION OF CUBAN BAKERIES) HAND ONE IL-62 PASSENGER AIRCRAFT (CUBA'S FOURTH). OF THESE ITEMS, CUBA FORMERLY OBTAINED ZINC, TIN PLATE, SOME FABRIC, CLOTHES, AND FOOTWEAR IN FREE MARKET. THUS, SOVIETS SAID, THESE ITEMS WILL OFFSET CUBA'S NEED FOR HARD CURRENCY PURCHASES. SOVIETS ALSO STRESSED FACT THAT ADDITIONAL 360 THOUSAND TONS OF CUBAN SUGAR DELIVERED WILL BENEFIT FROM INFLATED PRICES OF THE LONG-TERM SOVIET-CUBAN AGREEMENT FORMULA. (COMMENT: SOVIETS ADDED THERE HAD BEEN A 130 MILLION RUBLE "ADDITIONAL DELIVERY" OF SOVIET GOODS TO CUBA IN 1977, BUT APPARENTLY AS PART OF LONG-TERM SOVIET CONSTRUCTION CREDITS, NOT IN EXCHANGE FOR IMMEDIATE DELIVERY OF SUGAR.)

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4. IN ADDITION TO SUGAR SALES UNDER AGREEMENT AND "ADDITIONAL DELIVERIES", SOVIETS SAID MOSCOW IS CONCLUDING A SEPARATE ADDITIONAL CONTRACT WITH CUBA FOR PURCHASE OF APPROXIMATELY 500 THOUSAND TONS OF SUGAR (THE SOVIETS CAUTIONED THAT THEY DID NOT YET HAVE EXACT FIGURE) FOR HARD CURRENCY CASH BASED ON AVERAGE FREE MARKET PRICE FOR MONTH OF EACH EMBARKATION. SOVIETS SPECIFIED THAT THESE HARD CURRENCY SUGAR SHIPMENTS WOULD NOT COUNT UNDER CUBA'S FREE MARKET QUOTA. (COMMENT: SOVIETS SAID THEY HAD PURCHASED 118 THOUSAND TONS AND 150 THOUSAND TONS OF SUGAR FOR HARD CURRENCY AT FREE MARKET PRICES UNDER 1976 AND 1977 TRADE AGREEMENTS RESPECTIVELY. WE BELIEVE THIS PROBABLY REFERS TO ONE PORTION OF THE REPORTED 1.6 MILLION TON HARD CURRENCY SOVIET-CUBA-PHILIPPINE OPERATION DURING THE 1976-77 HARVEST. SEE 77
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HAVANA 58.)

5. WITH REGARD TO "VARIOUS GOODS" (RAZNYE TOVARY) SECTION OF TRADE AGREEMENT IN WHICH CUBANS HAD PRESSED FOR MORE GOODS FORMERLY OBTAINED IN FREE MARKET (SEE REF B), SOVIETS SAID ISSUE HAD BEEN SIDESTEPED FOR MOMENT BY AGREEMENT

THAT EACH SIDE WOULD PRESENT LISTS LATER IN THE YEAR OF ITEMS DESIRED (BY CUBA) AND ITEMS AVAILABLE (FROM USSR). (COMMENT: AS NOTED IN REF B, ARGUMENT CONCERNS ONLY 60 MILLION RUBLES OF THE 160 MILLION RUBLES "VARIOUS GOODS" CATEGORY.)

6. QUERIED ON HOW CUBANS, IN VIEW OF PURPORTEDLY LAGGING SUGAR HARVEST, COULD HOPE TO MEET EXPANDED SOVIET SUGAR REQUIREMENTS (WHICH MUST BE DELIVERED BY AUGUST), BOROVLEV STATED THAT COUNTRIES SUCH AS BULGARIA AND THE GDR (TOTAL 1978 PURCHASE COMMITMENTS OF 415 THOUSAND TONS - SEE HAVANA 872) - DO NOT TAKE THEIR SUGAR DELIVERIES UNTIL NOVEMBER-DECEMBER (THUS DRAWING FROM 1978-79 HARVEST). IN ADDITION, SOVIETS CALCULATE CUBAN FREE MARKET SALES AS ONLY REACHING 1.6 MILLION TONS THIS YEAR. BOROVLEV ADDED THAT CUBAN DELIVERIES TO SOVIETS ARE ACTUALLY RUNNING A LITTLE AHEAD OF SCHEDULE. (COMMENT: BULGARIA AND GDR SUGAR PURCHASES REPORTEDLY TOTALED 390 THOUSAND TONS IN 1977. UNLESS THESE COUNTRIES TOOK THEIR 1977 DELIVERIES OUT OF THE SPRING PORTION OF THE 1976-77 HARVEST, RATHER THAN THE NOVEMBER-DECEMBER PORTION OF THE 1977-78 HARVEST, CUBANS STILL WOULD APPEAR STRAPPED TO MEET COMMITMENTS. IF, HOWEVER, BULGARIA AND GDR TOOK NO SUGAR FROM 1977-78 HARVEST, AND SOVIET FIGURE IS CORRECT FOR CUBAN FREE MARKET SALES, TOTAL CUBAN SUGAR COMMITMENT FOR THIS HARVEST WOULD TOTAL ONLY ABOUT 6.5 MILLION TONS. F.O. LICHT'S (FRG) LATEST ESTIMATE FOR 1977-78 CUBAN HARVEST, INDEED, IS 6.5 MILLION TONS, CONFIDENTIAL

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WHILE POLICH EMBASSY HERE PUTS FIGURE AT 6.6 MILLION TONS OR SOMEWHAT ABOVE. WE FIND IT DIFFICULT TO BELIEVE, HOWEVER, THAT CUBANS WOULD RISK NOT FILLING EVEN THEIR REDUCED ISA FREE MARKET QUOTA, SINCE QUOTAS WILL BE REVIEWED IN 1980.)

7. COMMENT: GIVEN CUBAN-SOVIET PRICE INDEXING ARRANGEMENT, RISE OF PETROLEUM AND OTHER SOVIET PRICES DOES NOT SIGNIFICANTLY ALTER SOVIET CUBAN TERMS OF TRADE. BUT, GIVEN FACT THAT VOLUME OF TRADE UNDER AGREEMENT INCREASED (FROM 1977'S 3.3 BILLION RUBLES TO 1978'S 4 BILLION RUBLES) APPROXIMATELY SAME PERCENTAGE AS OIL AND OTHER PRICES, THE 140 MILLION RUBLE ADDITIONAL SUGAR DELIVERY PACKAGE (PARA 3) AND HARD CURRENCY CASH PURCHASE OF ADDITIONAL 500 THOUSAND TONS OF SUGAR CONSTITUTE PRINCIPAL INCREMENT IN SOVIET-CUBAN TRADE THIS YEAR. (FYI BOROVLEV HINTED THAT SUGAR PURCHASE HARD CURRENCY MAY BE USED BY CUBANS IN DEBT PAYMENTS TO WEST.

END FYI)

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